



**Lewes District Council**

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## **Audit and Standards Committee**

**Minutes** of a meeting of the **Audit Committee** held in the **Garden Room, Lewes House, 32 High Street, Lewes** on **Thursday, 27 September 2012** at 3.30pm

### **Present:**

Councillor I Eiloart (Chair)

Councillors M P Chartier, P L Franklin, J V Harris, C S Lambert and I J White

### **Officers Present:**

B Bird, Temporary Principal Accountant (Projects)

A Blanshard, Committee Officer

D Heath, Head of Audit and Performance

S Jump, Head of Finance

J Magness, Director of Finance

### **Also Present:**

L Maguire, PKF Accountants & Business Advisers

R Bint, Partner, PKF Accountants & Business Advisers

## **Minutes**

## **Action**

### **10 Minutes**

The Minutes of the meeting held on 25 June 2012 were approved as a correct record and signed by the Chair.

### **11 Apologies for Absence/Declaration of Substitute Members**

Councillor White declared that he was substituting for Councillor Russell who had sent an apology for absence.

### **12 Annual Report on the work of the Audit Committee**

The Committee received Report No 150/12 regarding the work of the Audit Committee for the year 2011/12. The Chair explained that, following a recommendation from the Council's external auditors PKF, the Chair of the Committee had produced an annual report since 2009.

The Chair advised that paragraph 17 of the Report detailed the conclusions on the effectiveness of Internal Audit, in that the service had achieved its aim, objectives and expected outcome, had operated in accordance with the Internal Audit strategy that had been approved by the Committee and had met with best practice standards, including compliance with the

Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

Paragraphs 18 and 19 of the Report set out the Committee's endorsement of the opinion of the Head of Audit and Performance that the Council's overall standards of internal control were satisfactory. That opinion was based on the work of Internal Audit, other internal reviews and external assurance bodies, and the Council's work on risk management. The risk management process had identified that most risks were mitigated by the effective operation of controls or other measures.

The Chair drew the Councillor's attention to paragraph 20 of the Report which confirmed that the Committee had discharged all its powers and duties as set out in its terms of reference. The Chair then suggested that, following the merging of the Audit and Standards Committees, it would be beneficial for Councillors to receive training.

Resolved:

- 12.1** That Report No 150/12 be noted;
- 12.2** That the conclusion on the effectiveness of Internal Audit, as set out in paragraph 17 of Report No 150/12, be endorsed;
- 12.3** That the opinion on the Council's Internal Control Environment and Risk Management arrangements, as set out in paragraphs 18 and 19 of Report No 150/12, be endorsed; and
- 12.4** That the Head of Audit and Performance be requested to organise training on the functions of the newly merged Audit and Standards Committee including CIPFA's "Audit Committees – Practical Guidance for Local Authorities (ii)".

HAP

**13 Interim Report on the Council's Systems of Internal Control 2012/13**

The Committee received Report No 151/12 relating to the Internal Audit work of the Audit and Performance Division for the first five months of 2012/13 and on the adequacy and effectiveness of the Council's systems of internal control.

The Head of Audit and Performance highlighted table 1, under paragraph 4.2 of the Report, which showed that a total of 302 audit days had been undertaken compared to 310 planned. He advised that the variance of 8 days was not significant at that stage, and it was estimated that the audit days would be at or close to plan by the year end.

Paragraphs 4.3 to 4.9 summarised the main functional areas reviewed and the key audits undertaken in 2012/13.

The Head of Audit and Performance highlighted section 5, regarding risk management, and informed the Committee of the importance of showing it had taken place. He explained that the Annual Report on Risk

Management had been presented to Cabinet at its July 2012 meeting. The report had confirmed the strategic risks identified by the Corporate Management Team and the action plan for risk management for the year ahead (Appendix B).

Appendix A of the Report contained a statement of internal audit work and key issues arising from individual pieces of audit work. This summarised the audit reports on Health and Food Safety/Food Safety and Licensing.

Resolved:

- 13.1** That it be noted that the overall standards of internal control during the first five months of 2012/13, as shown in Section 3 of the Interim Report No 151/12, were satisfactory.

**14 Annual Report on the Council's work to combat Fraud and Corruption 2011/12**

The Committee received Report No 152/12 relating to the adequacy and effectiveness of the Council's systems to combat fraud and corruption.

The Head of Audit and Performance told the Committee that there was a strong Fraud and Corruption team at the Council. He explained that a snapshot of the fraud and corruption work was contained in the Annual Governance Statement, and that this Report showed the work in more detail for the Committee.

Paragraph 2.2 the Report outlined the Council's zero tolerance of fraud and corruption, and that the Council expected staff and Councillors to act with honesty and integrity in all aspects of their official duties.

The Report outlined the Council's strategies and policies to counter fraud and corruption in section 3. The Head of Audit and Performance explained to the Committee that a key mechanism for preventing fraud was a strong internal control environment. He drew the Committee's attention to paragraph 4.2 which detailed the staffing levels and experience of both Internal Audit and the Benefit Fraud Investigation Team. The Director of Finance explained that introduction of the Universal credit is accompanied by a National Single Fraud Investigation Service which encompasses the Council fraud work on Housing Benefit. He explained that the Local Government Finance Bill would include powers for the Council to undertake fraud work in connection with the new Local Council Tax Support Scheme.

The Committee discussed paragraph 5.1 with regards the issue of Data Matching as used by the National Fraud Initiative (NFI) and the possible introduction of new data fields. There was concern over the issue of privacy when gathering data in central locations. The Head of Audit and Performance explained that data matching occurred between Local Government, Health Service, Police, Fire and Rescue, the Probation Service and Central Government. The Director of Finance informed the Committee that officers had taken advice from the Corporate Head – Legal and Democratic Services regarding the trial data fields, and that the

Council's approach to changes in the NFI had been cautious. He added that the Council must always give Fair Processing Notifications in order to use any data collected.

Resolved:

**14.1** That Report No 152/12 be noted.

## **15 Treasury Management**

The Committee considered Report No 153/12 which set out details of recent Treasury Management activity.

The Council's approved Treasury Strategy Statement required the Committee to review details of Treasury transactions against criteria set out in the Strategy and make observations to Cabinet as appropriate.

The Head of Finance highlighted the following points contained within the Report:

- Section 2 explained the position of Treasury Management activity during the Report period.
- The table, set out under paragraph 2.3, showed the fixed term deposits held at 31 August 2012 (excluding that with the Icelandic Bank, Landsbanki Islands hf) and identified the long-term and short-term credit rating of each counterparty at the date of investment.
- Under paragraph 2.4, the table showed the fixed term deposits that had matured since 1 June 2012, in maturity date order.
- Under paragraph 2.5, the table showed the use of deposit accounts during the period. It was explained to the Committee that the deposits in the Co-operative Bank exceeded the £1m limit as set out in the Investment Strategy. This had been for one night and was the fault of a direct debit error on the part of the Public Works Loans Board (PWLb).
- The chart at paragraph 2.7 summarised the Council's investment position over the period 1 June 2012 to 31 August 2012. The figures for 29 August 2012 showed when the Council had purchased The Crest, Newhaven.

The Head of Finance drew the Committee's attention to paragraph 2.8 which outlined the advice of Arlingclose, for the Council to diversify its investment instruments, by utilising, when appropriate, Treasury Bills and Certificates of Deposit. The Council approved both these investment instruments in its 2012/2013 Treasury and Investment Strategy, but their use required a Custodian facility to enable the transactions. At the recommendation of Arlingclose the Council had opened a facility with King and Shaxson, but had yet to make use of it.

Resolved:

**15.1** That it be confirmed to Cabinet that Treasury Management Activity between 1 June 2012 and 31 August 2012 had been in accordance with the approved Treasury Strategies for that period; and

**15.2** That Report No 153/12 be noted.

**16 Annual Governance Statement 2012**

The Committee considered Report No 154/12 which presented the draft Annual Governance Statement 2012, as set out at Appendix A of the Report.

The Head of Audit and Performance explained that the Council was legally required to prepare an Annual Governance Statement each year in accordance with the statutory requirement set out in the Accounts and Audit Regulations 2011. CIPFA best practice recommended that the Annual Governance Statement should be approved at the same time as the Statement of Accounts.

Paragraph 3.1 set out the CIPFA/Society of Local Authority Chief Executives framework which defined the form and content of the Annual Governance Statement. The information required included:

- Scope of responsibility
- Purpose of the governance framework
- Governance framework
- Review of effectiveness
- Significant governance issues.

The Head of Audit and Performance explained that most of the Annual Governance Statement has been before the Committee throughout the year.

The Chair requested an update on the progress of the 'Democratic Conversation with Lewes District' as approved by Cabinet in May 2012. The Director of Finance agreed to email him with an update.

Resolved:

**16.1** That the draft Annual Governance Statement, as set out at Appendix A of Report No 154/12, be approved.

**17 Annual Governance Report 2011/12**

The Committee considered Report No 155/12 from PKF, the Council's external auditor, which set out PKF's findings from their audit of the

DoF

Council's auditing standards and financial statements for the year ended 31 March 2012.

Ms Maguire, PKF, took Councillors through the Report and explained that PKF's executive summary of their findings and conclusions was set out under Section 1. Further details of PKF's key findings from the audit were set out at Section 3 of the Report.

Ms Maguire informed the Committee that PKF had concluded that they anticipated issuing unqualified opinions on the area of audits undertaken.

Ms Maguire drew the Committee's attention to an amended page of the Report on page 1 of Appendix B entitled "Uncorrected misstatements". The table detailed the anomalies recorded during the audit that had not been adjusted within the final financial statements. She explained each of the misstatements and noted that the outstanding audit work referred to in the report had now been completed. This work had confirmed that the cash flow and cash movements were presented fairly in the accounts.

Ms Maguire also explained that there was scope for improvement in terms of Internal Control relating to purchase orders. The Director of Finance explained that with the introduction of electronic ordering this should be resolved. He also explained that Internal Audit had satisfied themselves that all of the orders in their audit testing were for goods and services required by the Council, although in some cases authorisation procedures had not been strictly followed. The Committee congratulated officers as this year's Report showed much improvement. PKF agreed with the Committee.

Resolved:

**17.1** That it be agreed that the Director of Finance and Chair of the Audit Committee sign the letter of representation, the draft of which is set out at Appendix C of Report No 155/12, on behalf of the Council; and

**17.2** That Report No 155/12 be noted.

**18 Annual Financial Report 2011/12**

The Committee considered Report No 156/12 which presented the audited Statement of Accounts 2011/2012 for approval by members of the Committee.

The Accounts and Audit Regulations 2011 required the Director of Finance and Councillors to certify and approve an audited set of accounts for publication by no later than 30 September each year.

Under the Council's Constitution, the Audit and Standards Committee was enabled to approve the Annual Statement of Accounts, thus meeting the requirement of the Accounts and Audit Regulations that a set of accounts

should be approved by Councillors before its publication.

As reported to the meeting of the Audit Committee on 25 June 2012, a draft Statement of Accounts had been approved by the Director of Finance by 30 June 2012 and those accounts presented to the Council's external auditors, PKF, for audit. PKF had noted in their Annual Governance Report, Report No 155/12, presented at this meeting, that they anticipated issuing an 'unqualified audit opinion' on the Council's financial statements, subject to resolving a number of outstanding issues and final clearance of the audit.

An overview of the Statement of Accounts 2011/2012 was set out at Appendix 1 of the Report, with the full document set out at Appendix 2.

The Head of Finance circulated copies of some pages from the accounts following conclusion of outstanding issues by PKF to show where adjustments had since been made. Those amendments were highlighted in yellow to show the old and revised figures, copies of which are contained in the Minute Book.

The Head of Finance took Councillors through the Report. He explained that the Balance Sheet on page 17 of the Statement, provided a snapshot of the Council's Financial Position as at 31 March 2012 and included the General Fund and Housing Revenue Account balances. Paragraph 4 of the Report gave a breakdown of each of the significant items on the Balance Sheet.

Resolved:

- 18.1** That the Statement of Accounts 2011/12 be approved;
- 18.2** That it be agreed that the Chair of the Audit and Standards Committee sign the accounts on behalf of the Committee; and
- 18.3** That the contents of Report No 156/12 be noted.

**19 Date of Next Meeting**

Resolved:

- 19.1** That the next scheduled meeting of the Audit and Standards Committee to be held on Monday 3 December 2012 at 3.30pm in the Garden Room, Lewes House, 32 High Street, Lewes be noted.

**All to  
note**

The meeting ended at 4.55pm

I Eiloart  
Chair